

An Overview of Utah's Property Tax System

Prepared for:

Utah Legislature

Revenue and Taxation Interim Committee

April 16, 2008



Office of Legislative Research and General Counsel

Historical Highlights

- Territorial and Early Statehood:
 - Utah Constitution provided that all property, not otherwise exempt, be taxed in proportion to its value. “Property” included “moneys, credits, bonds, stocks, franchises, and all matters and things capable of private ownership.”
- 1929: Utah Tax Revision Commission recommends elimination of property tax on intangibles and improvements in appraisals
- 1932 – 1944: First statewide reappraisal
- 1947: Minimum education program
- 1953: Mandatory five year rotating reappraisal
- 1958: Household furnishings exempted

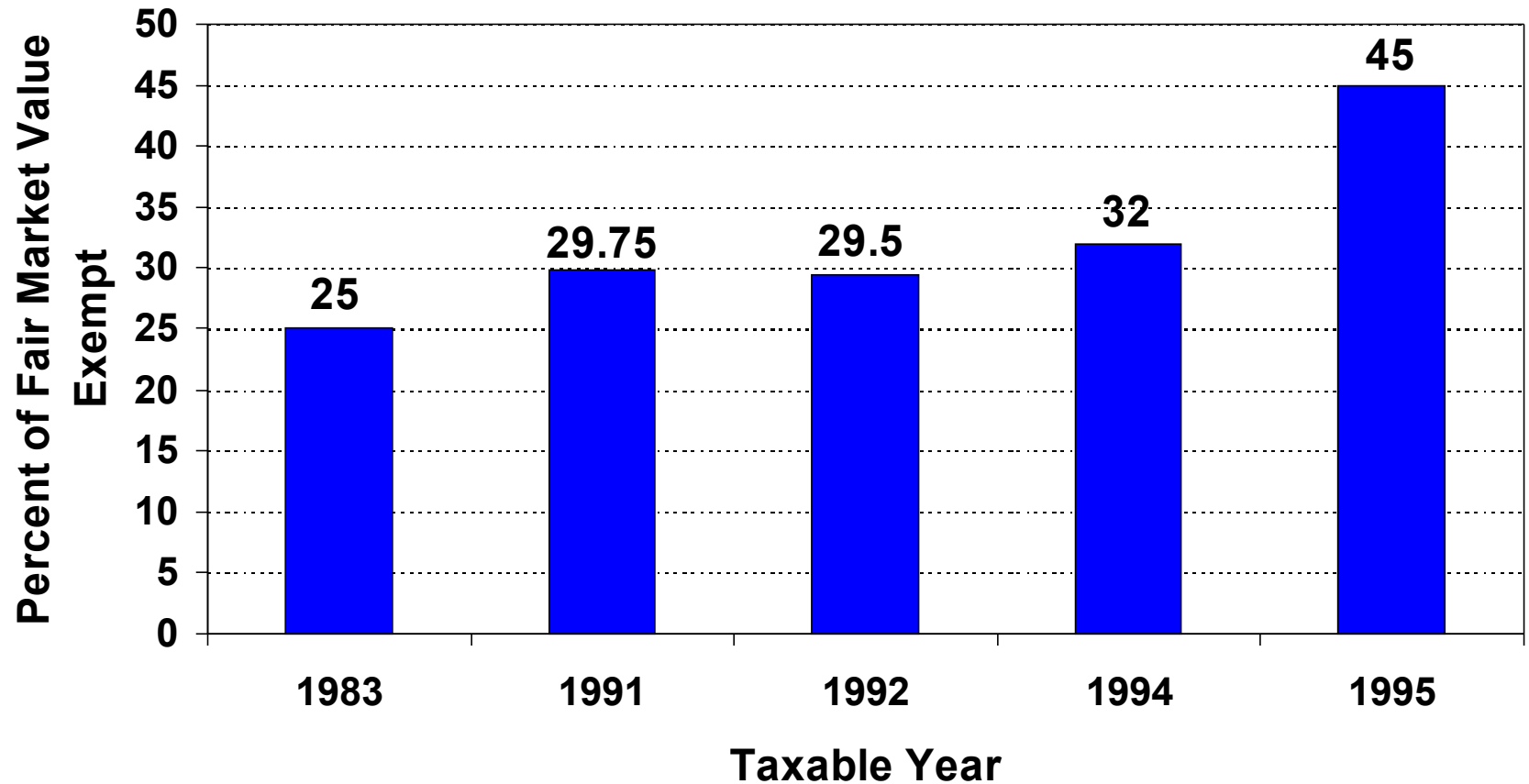
Historical Highlights

- 1963: Exemption for disabled veterans adopted
- 1964: “Freeport Amendment” adopted by voters exempting inventory held for resale.
- 1968: “Greenbelt Amendment” adopted by voters allowing farmland to be valued according to its use.
- 1977: Circuit Breaker program adopted
- 1979: Responses to “taxpayer revolt” included rollback to 1978 values, property tax rebates, reappraisal program dropped.

Historical Highlights

- 1980: Voter's reject property tax limitation ballot initiative
- 1982: Voters approve constitutional amendment allowing residential exemption up to 45% of FMV
- 1988: Voters reject property tax limit ballot initiative (.75% of FMV for residential, 1% for non-residential)
- 1994 and 1995: Legislature reduces minimum basic school levy by 52% and increases residential exemption to 45%
- 1998: "Age based" fee system adopted for automobiles and light trucks.

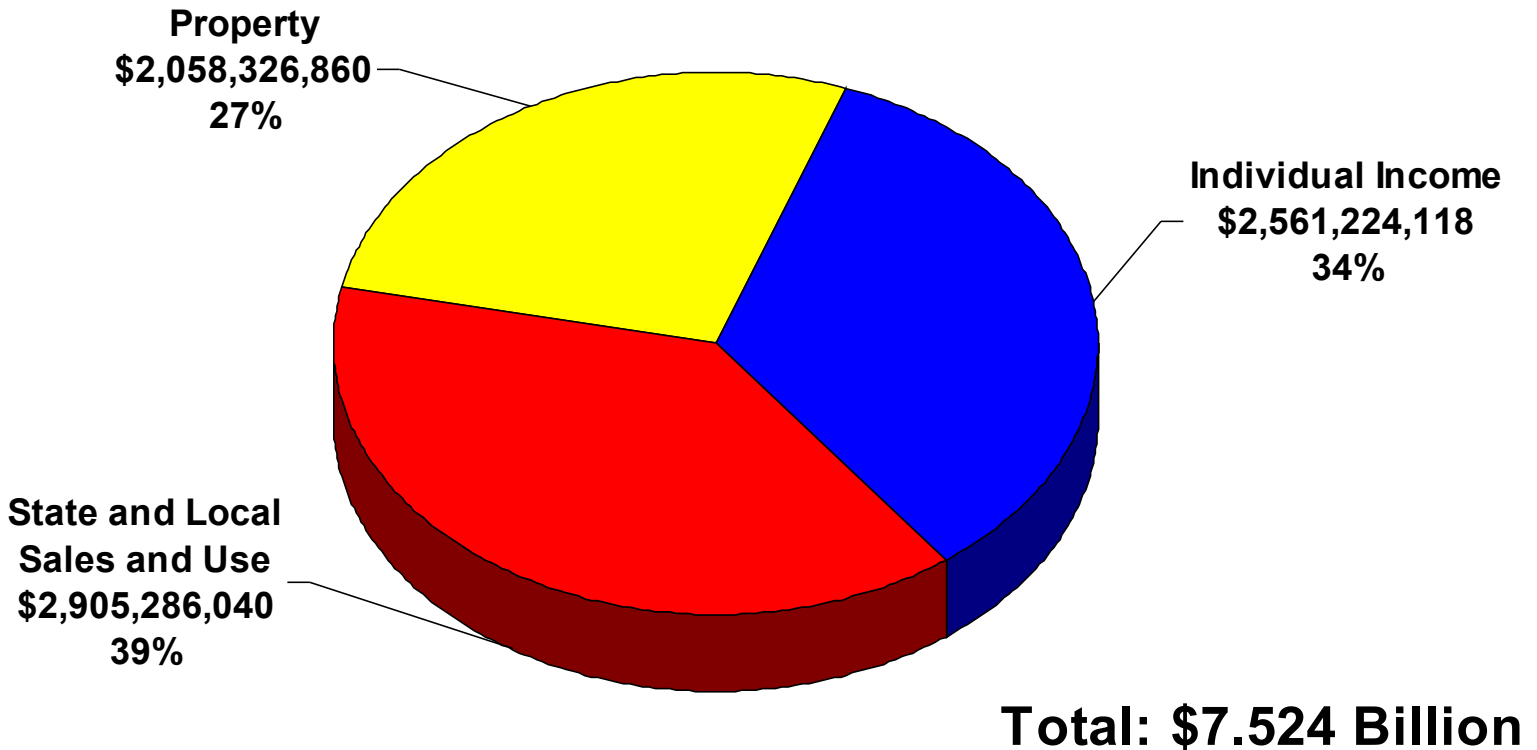
Implementation of the 45% Residential Exemption



Utah's Three Major State and Local Taxes:

Individual Income, Property, and State and Local Sales and Use

Fiscal Year 2007

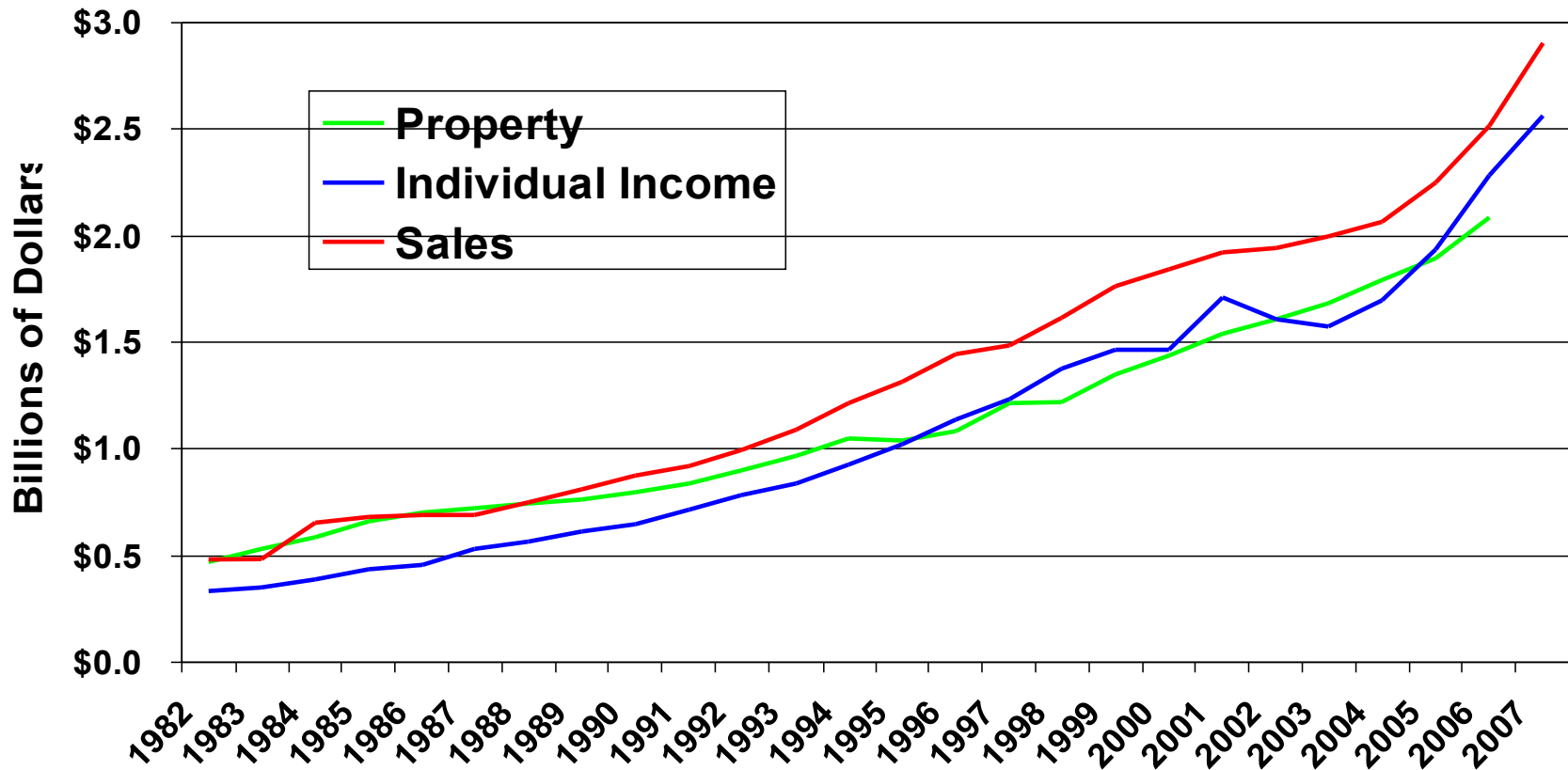


Property tax is for 2006 tax year.

Source: Utah State Tax Commission, Property Tax Division and Economic and Statistical Unit.

State and Local Sales and Use, Individual Income, and Property Taxes Revenues

FY 1982 to FY 2007



Source: Utah State Tax Commission, Property Tax Division and Economic and Statistical Unit.

Why most tax experts *love* the property tax:

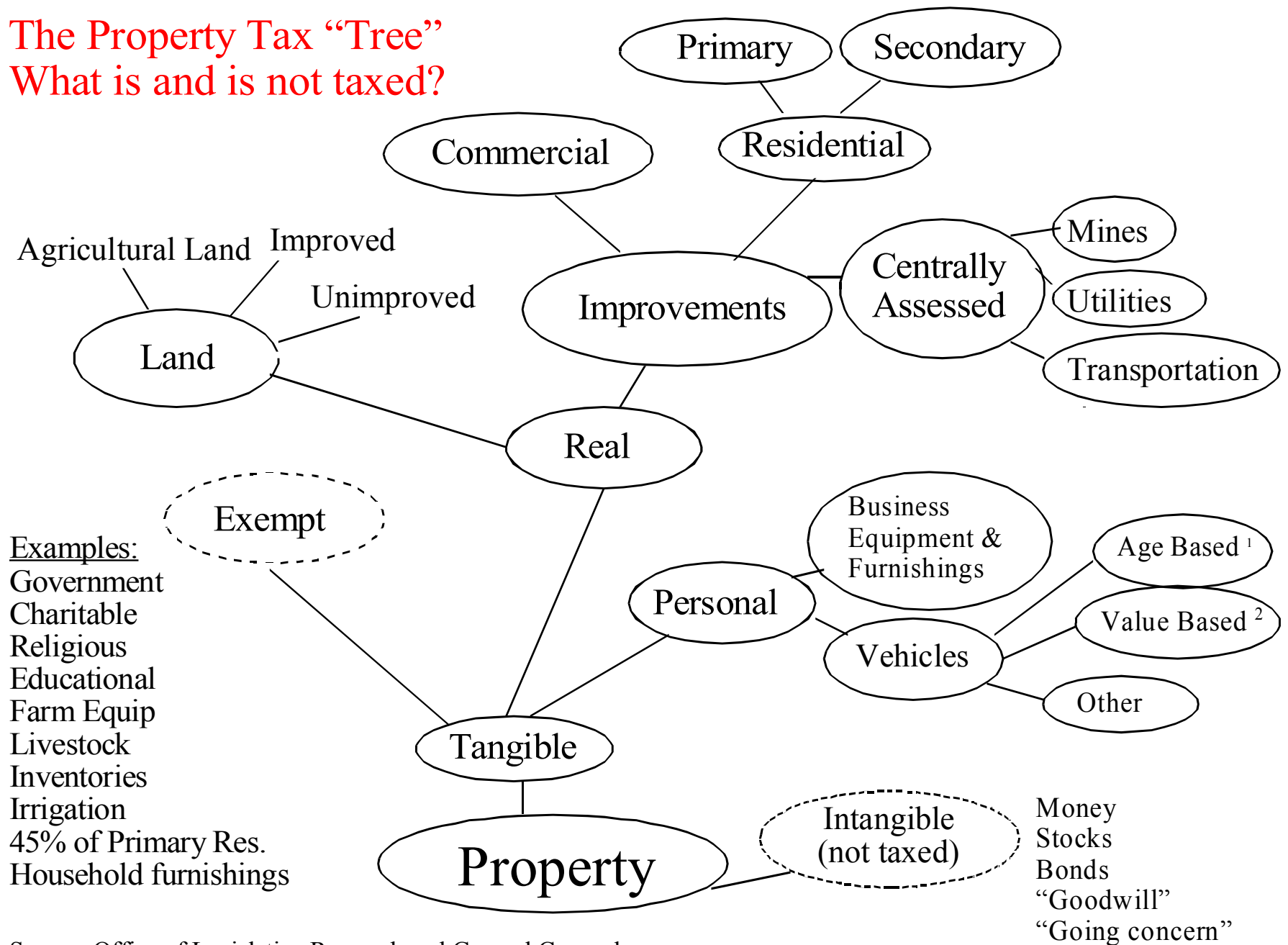
- An old tax
- A stable tax
 - Raises revenue through the business cycle
 - Grows with population and income
- A simple (but not always easy) to administer tax
- A benefits tax
 - Vs: a “capital” tax
- A tax that allows local control
- A visible tax – accountability
- Transparent

Why most citizens and elected officials *hate* the property tax:

- Visibility
- Uncertain
- Perceptions of unfair administration
- Difficult to understand
- Shifting property tax burdens
- Unfair:
 - Not related to ability to pay
 - Not related to benefits received
- Difficult for some groups to pay

The Property Tax “Tree”

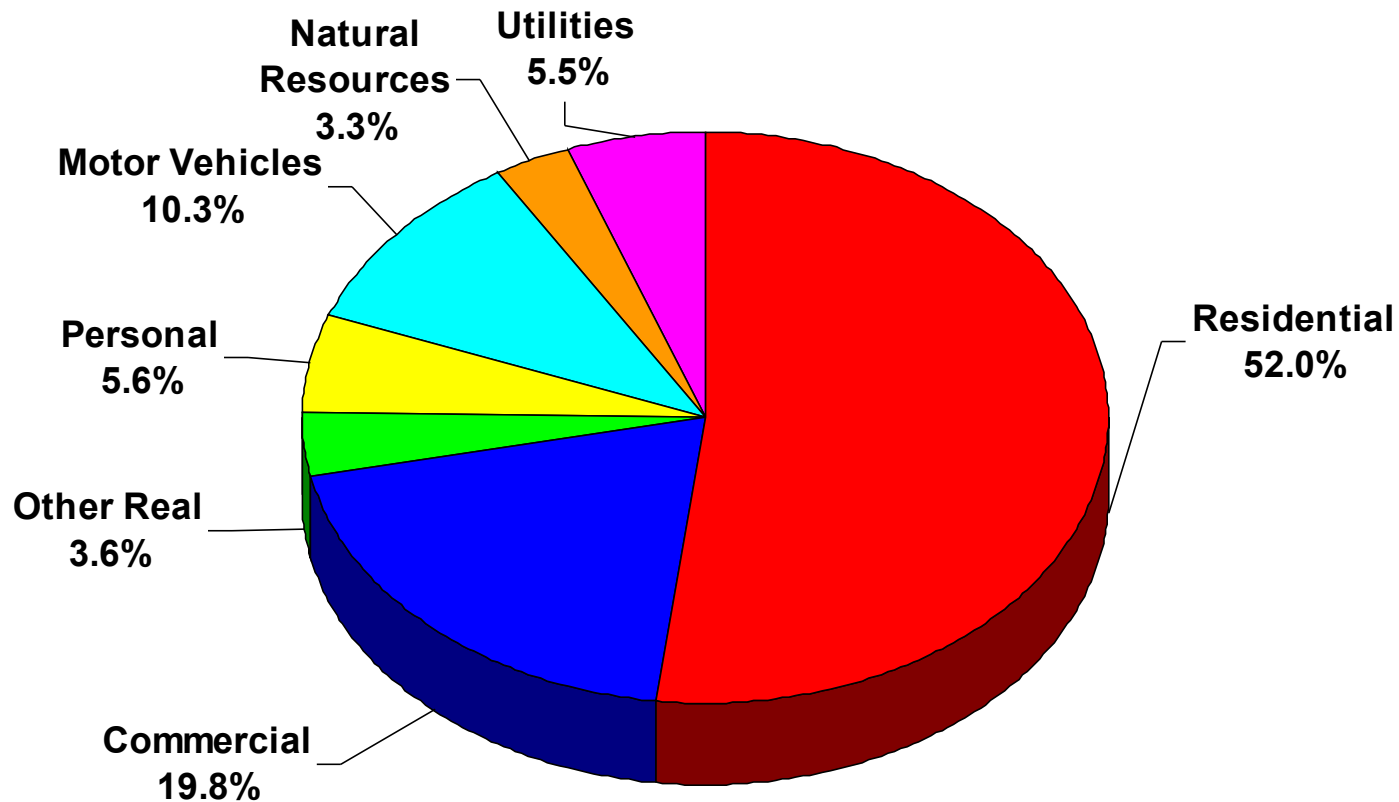
What is and is not taxed?



Property Taxes

Where Does the Money Come From?

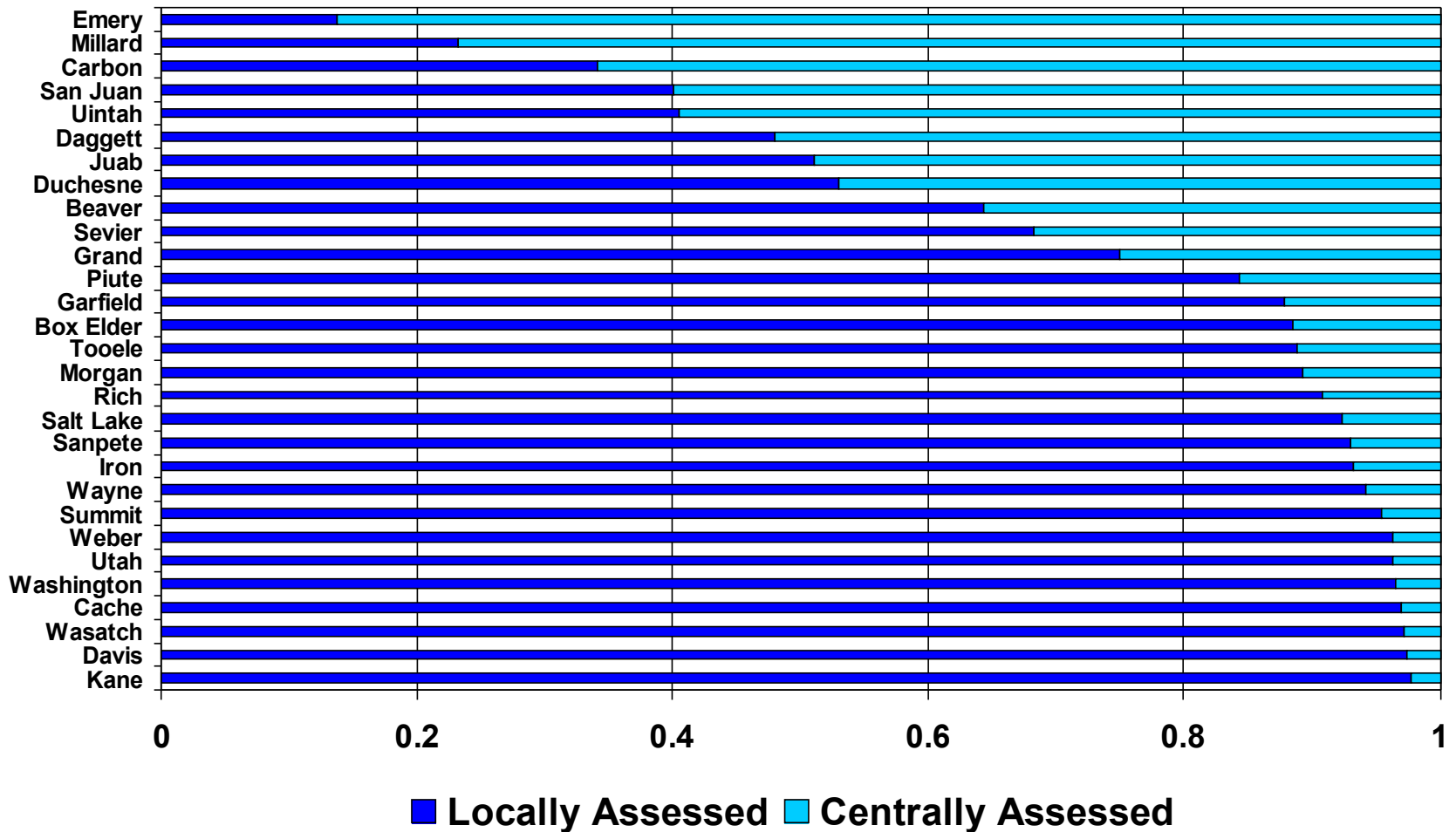
2006 Tax Year



Total Property Taxes Charged: \$2,058,326,860

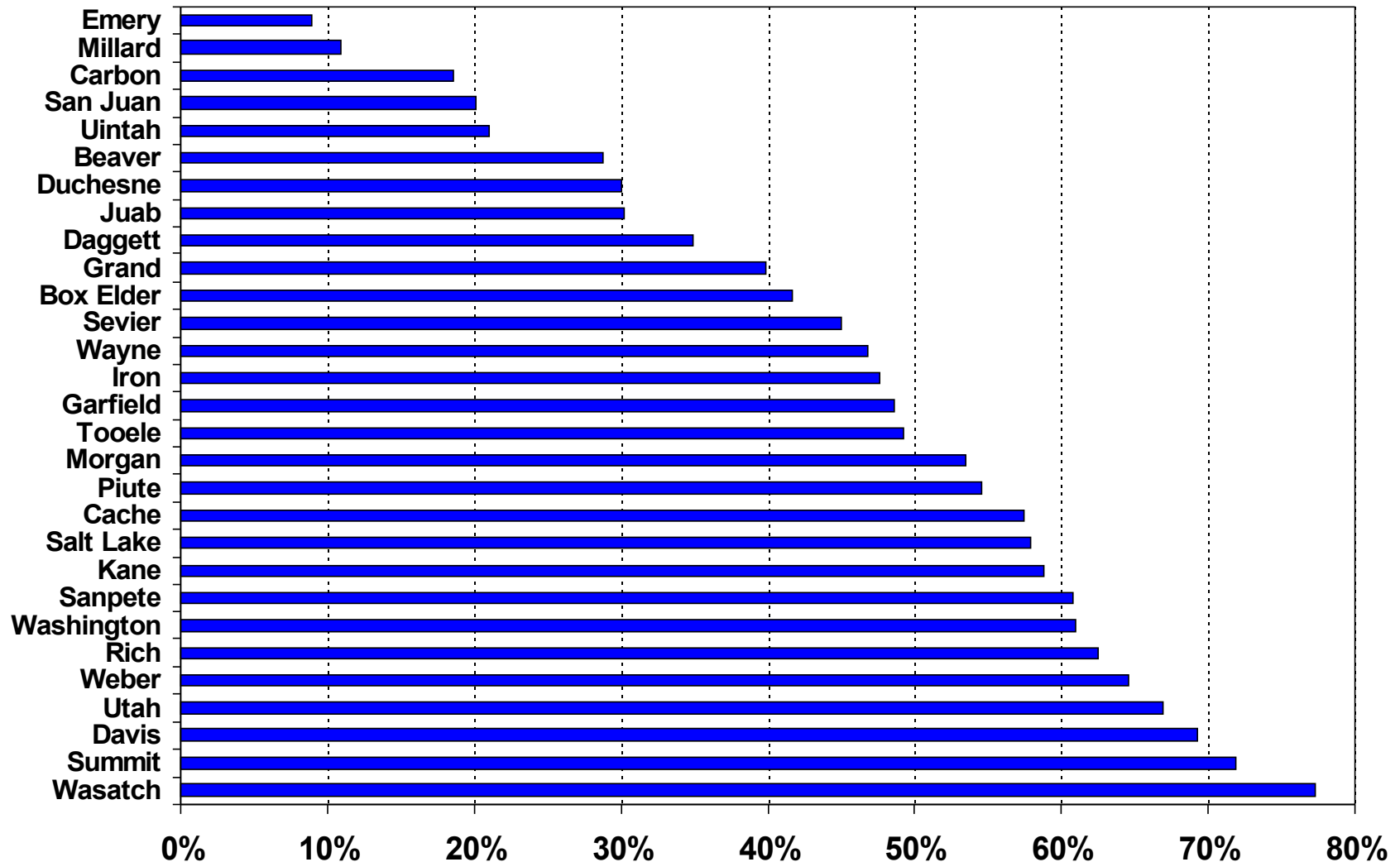
Portion of Property Tax Base That Is Centrally Assessed vs. Locally Assessed by County

2006 Tax Year

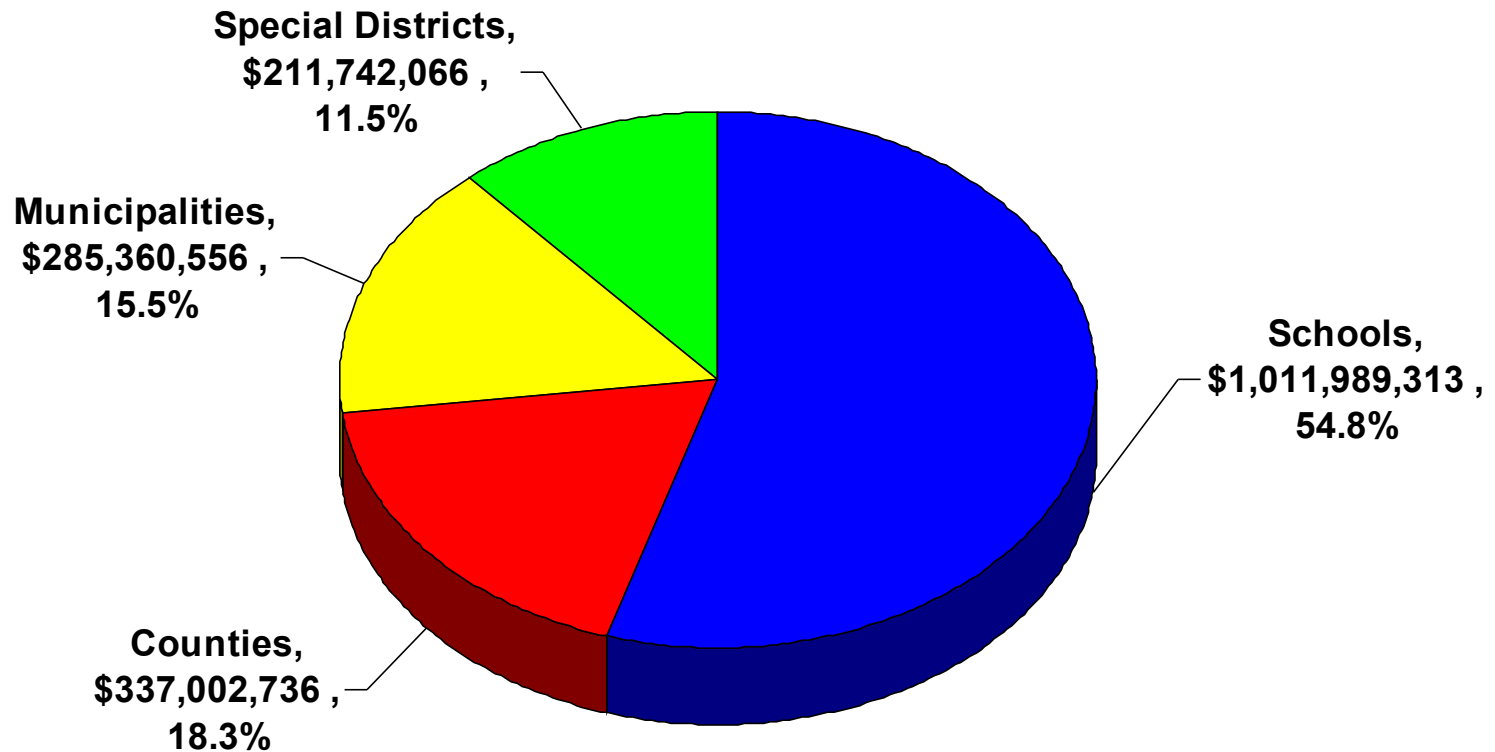


Source: Utah State Tax Commission, Property Tax Division.

Portion of Property Tax Base That is Residential Property by County – 2006 Tax Year



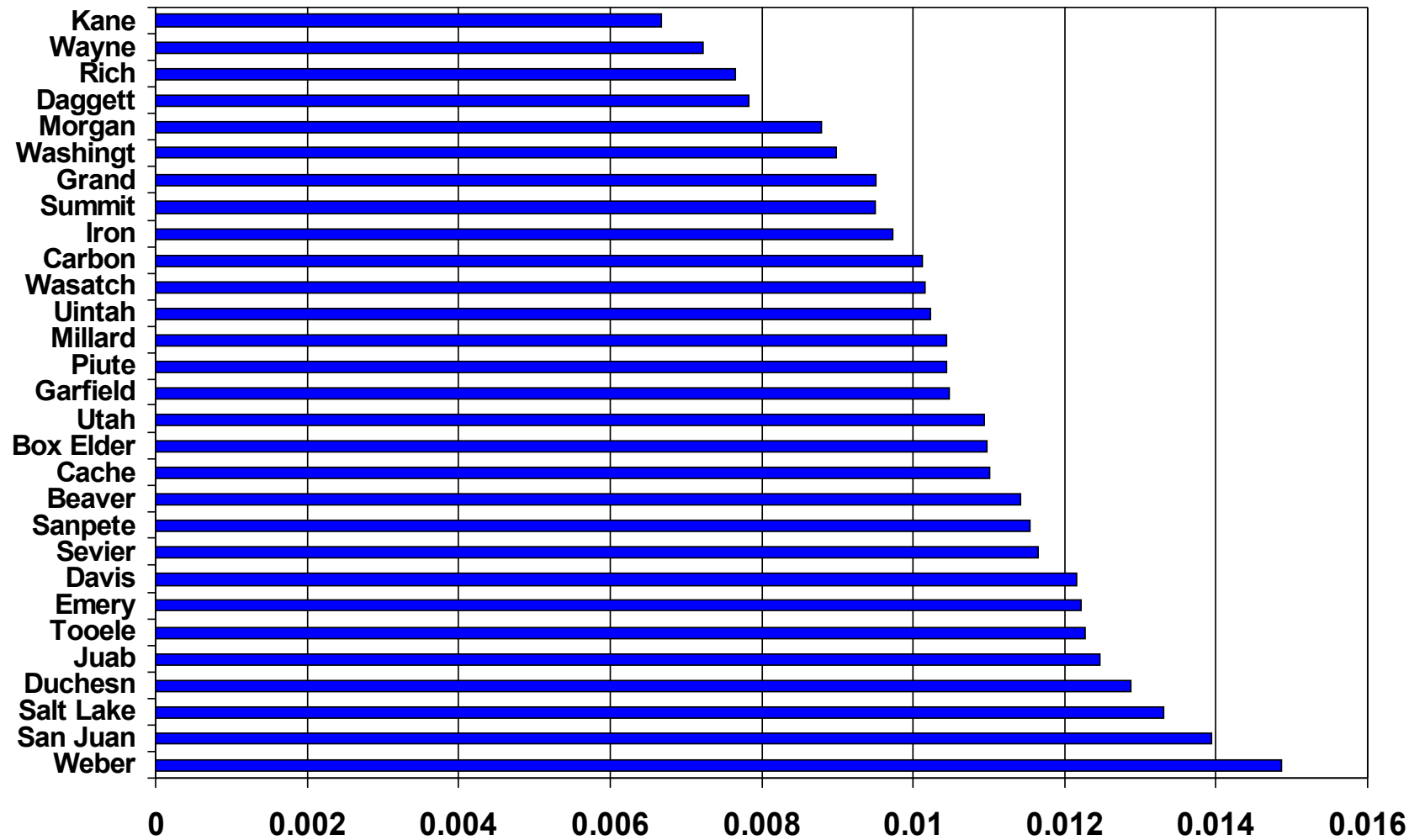
Property Taxes Where Does the Money Go? 2006 Tax Year



Source: Utah State Tax Commission, Property Tax Division.

Average Property Tax Rate by County

2006 Tax Year

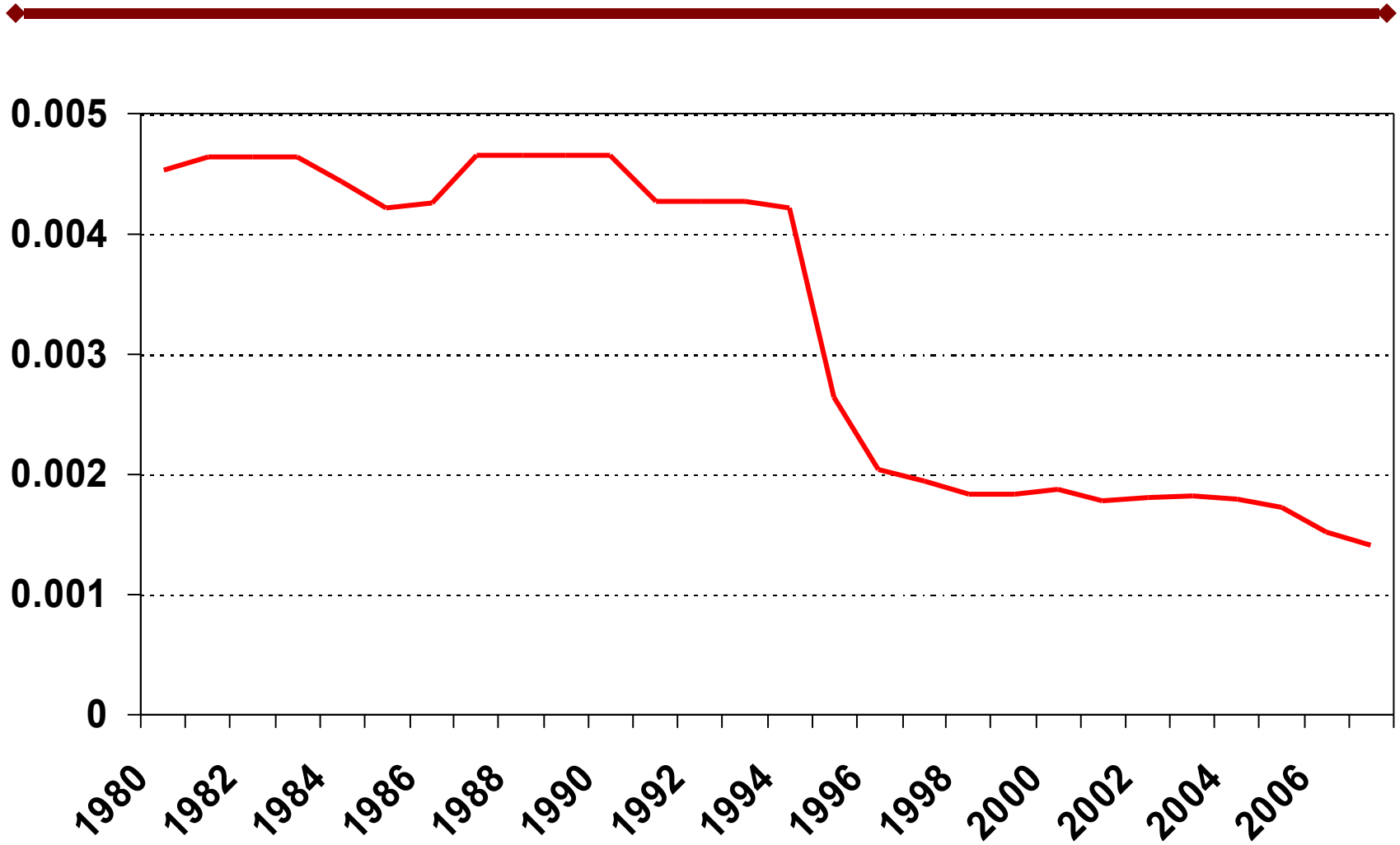


Source: Utah State Tax Commission, Property Tax Division.

What has the Legislature done to keep property taxes as low as possible?

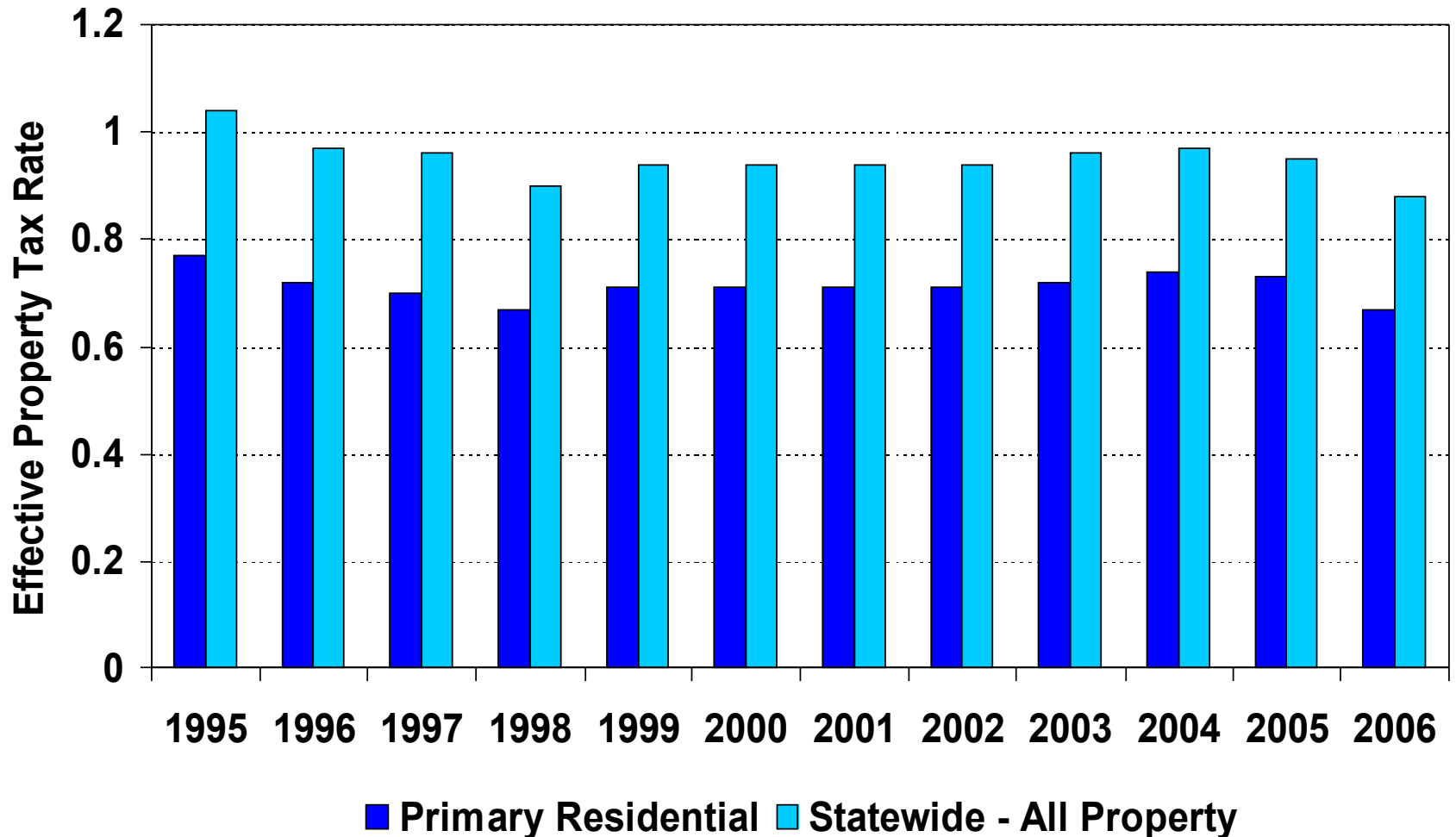
- 45% residential exemption
- Reductions in minimum basic school property tax levy
 - Never imposed a levy higher than the certified rate
- Truth in Taxation
- Expanding options for local sales and use taxes

Minimum Basic Property Tax Levy Imposed by School Districts

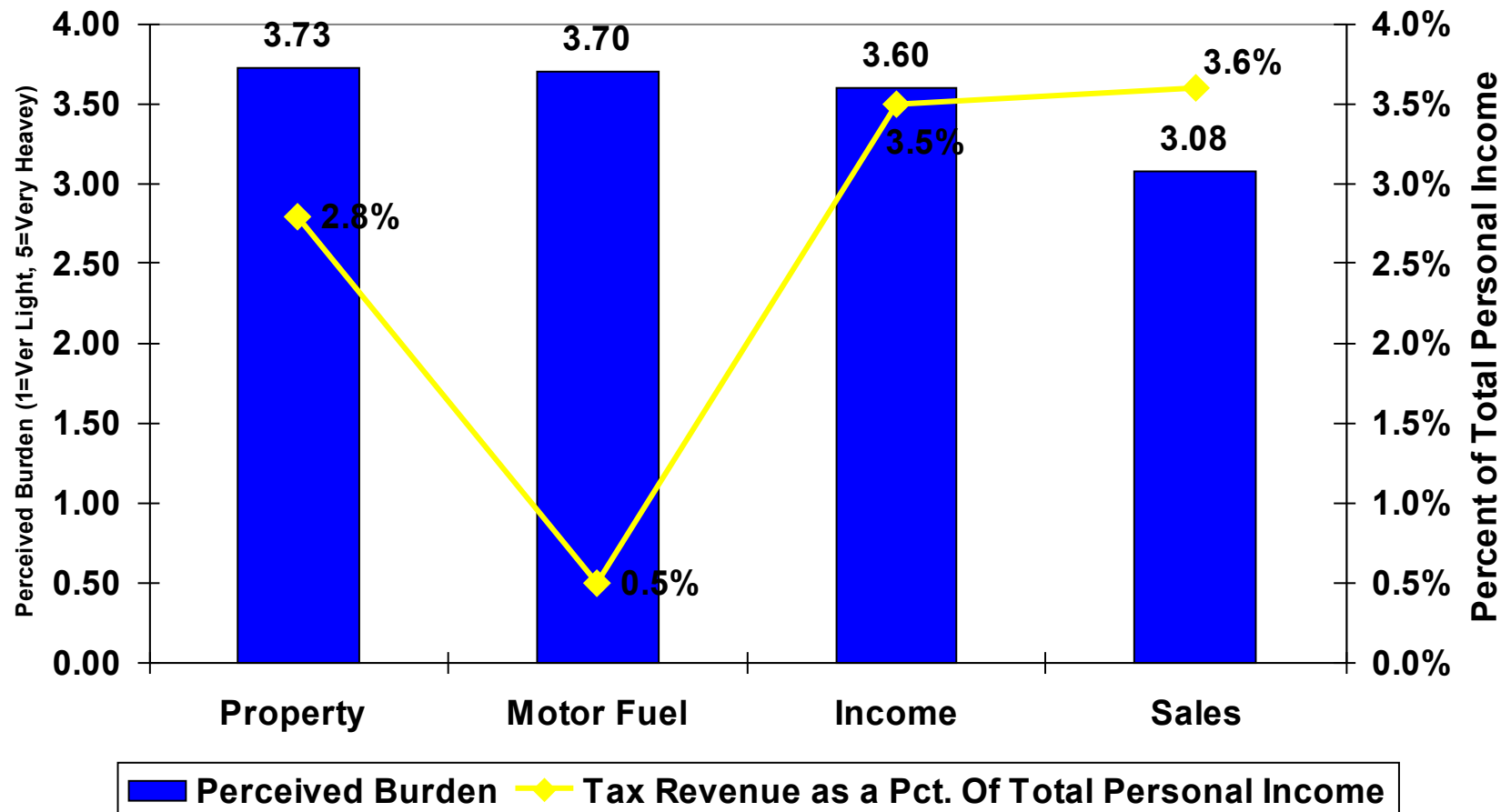


Effective Property Tax Rates

Primary Residential Property and All Property
1995 – 2006 Tax Years



Perceived vs. Actual Tax Burden: Selected Utah Taxes



Source for perceived tax burden: Utah Foundation, "The 2008 Priorities Survey." Source for actual tax burden as a percent of personal income calculations by Office of Legislative Research and General Counsel. Basic data: Utah State Tax Commission.

Recent Property Tax Studies

- Property Tax Task force of the Utah Tax Recodification Commission (early 1990s)
 - Recodification of Statutes
 - Assessment and Collection Practices
- Utah Legislature Property Tax Task Force (1994 – 1995)
 - Further improve assessment and collection practices
 - Increase income eligibility for circuit breaker
 - Increase the primary residential exemption to 60 percent
- Tax Elimination Blue Ribbon Committee (1996)
 - Replace some county property taxes with count option sales and use tax
 - Eliminate minimum basic property tax levy for schools and replace with income tax revenue
 - Replace value based fee on motor vehicles with alternative based fee

Truth in taxation: a “revenue” driven system.

Bottom line:

If a taxing entity desires to budget an increased amount of ad valorem revenue (exclusive of new growth) it must comply with “truth in taxation” by advertisement and holding a public hearing.

Truth in Taxation Holds Revenues Constant (No New Growth)

Budgeted Ad Valorem Revenue = \uparrow Valuations *
 \downarrow Rate

Budgeted Ad Valorem Revenue = \downarrow Valuations *
 \uparrow Rate

- Taxing entity received no new revenue despite changes in property valuations.

There are different property tax rates at different points in the process:

- Certified rate: the property tax rate that will provide the same ad valorem property tax revenues as were budgeted in the prior year.
 - Is the “proposed rate” higher than the “certified rate”? If so, must advertise its budget hearing.
- Proposed rate: the property tax rate that a taxing entities proposes to impose in its budget setting process.
- Approved rate: the property tax rate ultimately adopted by the taxing entity and imposed on taxable property.

Calculating the Certified Tax Rate

$$\text{"Certified rate"} = \frac{\text{Prior Year Budgeted Property Tax Revenues}^*}{\text{Current Year's Adjusted Property Tax Base}}$$

* "Prior year budgeted property tax revenues" do not include redemptions, interest, and penalties.

Calculating the Adjusted Property Tax Base

- Step 1 = Aggregate taxable value of all property tax minus RDA adjustments.
- Step 2 = RDA adjusted value * Average Percentage net change in value of taxable property due to BOE adjustments during the prior three years.
- Step 3 = Multiply the amount determined in Step Two by the property tax collection rate for the prior 5 years.
- Step 4 = Subtract “new growth” from the amount determined in Step 3.
- Equals = Adjusted property tax base.

New Growth

“New growth” = Increase in taxable value
from the previous calendar
year to the current year

Less:

The amount of increase resulting
from factoring, reappraisal, or any
other adjustment; or

The amount of increase in the
taxable value of property assessed
by the commission resulting from a
change in apportionment.

Calculating the Certified Rate in a Hypothetical Taxing Entity

Year 1

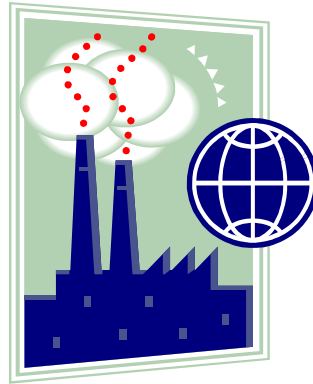
Home



Taxable
Value:

\$100,000

Factory



\$500,000

Office Building



\$1,000,000

Certified Rate = Last Year's Budgeted Property Tax Revenue/This Year's Taxable Value

$$\frac{\$10,000}{\$1,600,000} = 0.006250$$

Tax:

\$625

\$3,125

\$6,250

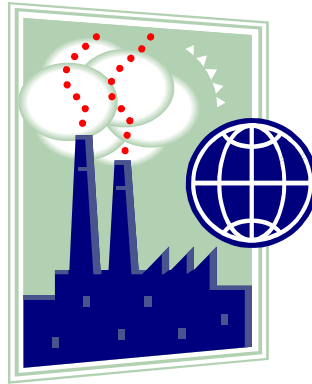
Calculating the Certified Rate in a Hypothetical Taxing Entity

Year 2

Home



Factory



Office Building



Taxable
Value:

\$90,000

\$500,000

\$1,000,000

Certified Rate = Last Year's Budgeted Property Tax Revenue/This Year's Taxable Value

$$\frac{\$10,000}{\$1,590,000} = 0.006289$$

Tax This Year: \$566
Tax Last Year: \$625
Difference: (\$59)

\$3,144
\$3,125
\$19

\$6,289
\$6,250
\$39

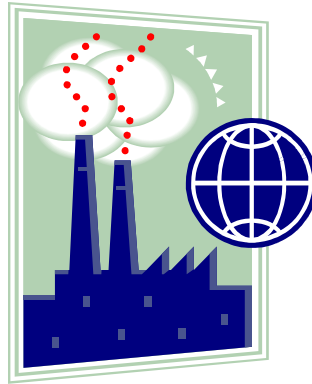
Calculating the Certified Rate in a Hypothetical Taxing Entity

Year 3

Home



Factory



Office Building



Taxable
Value:

\$90,000

\$500,000

\$900,000

Certified Rate = Last Year's Budgeted Property Tax Revenue/This Year's Taxable Value

$$\frac{\$10,000}{\$1,490,000} = 0.006711$$

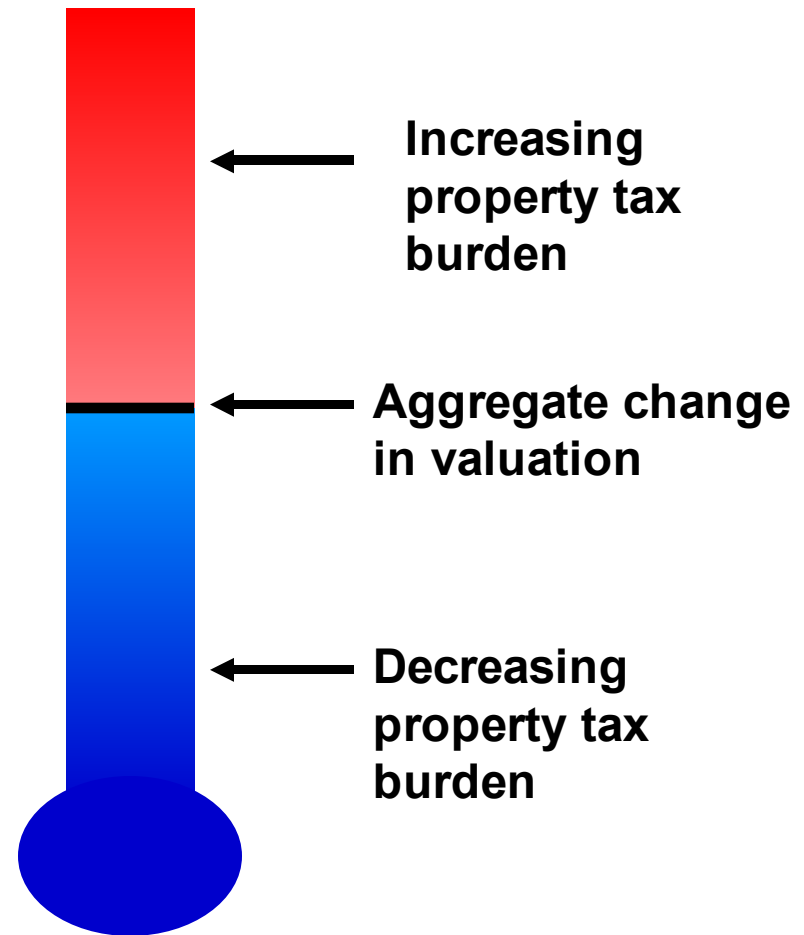
Tax This Year: \$603
Tax Last Year: \$566
Difference: \$37

\$3,355
\$3,144
\$211

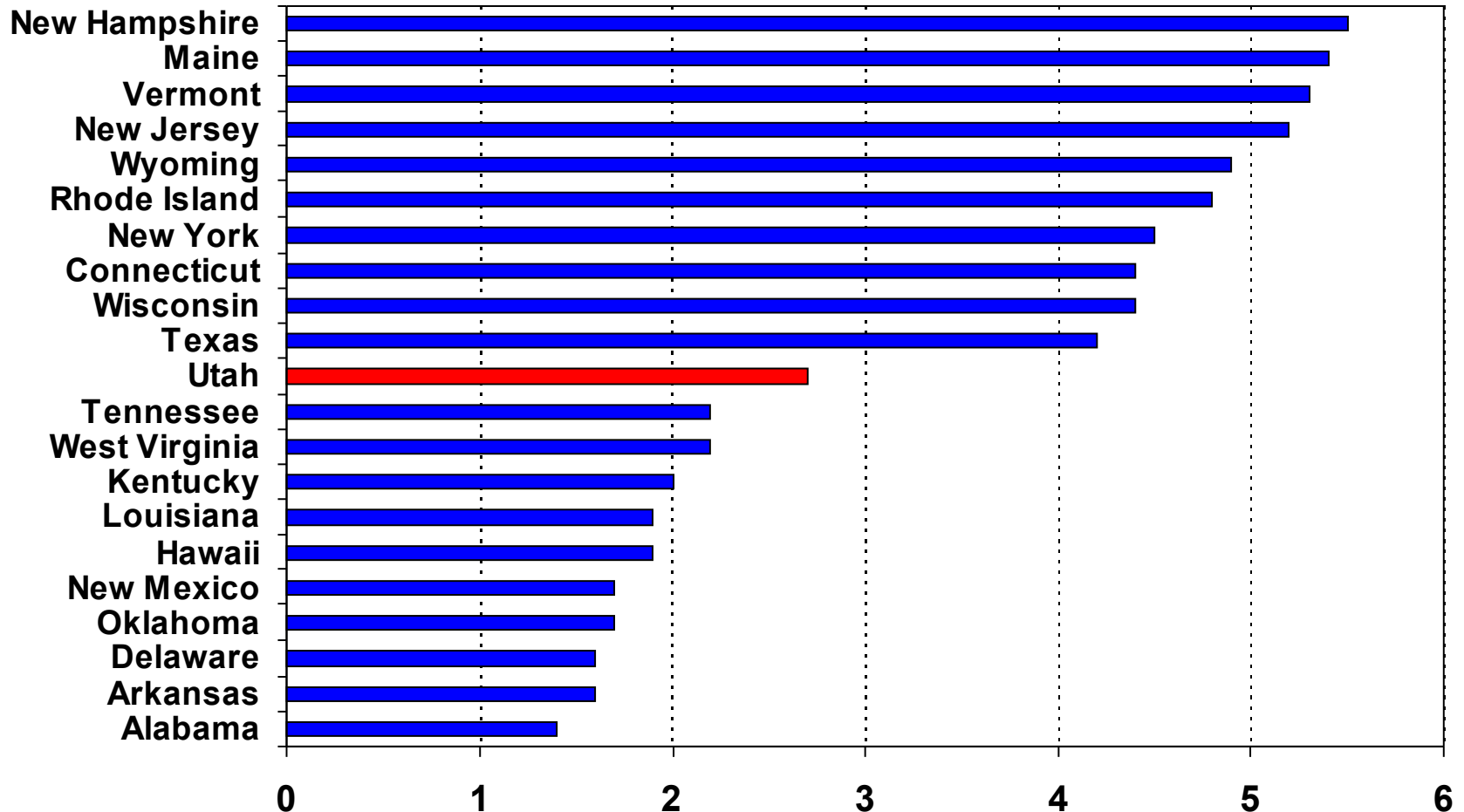
\$6,039
\$6,289
(\$250)

Changes in property valuation, relative to other property, may change taxes.

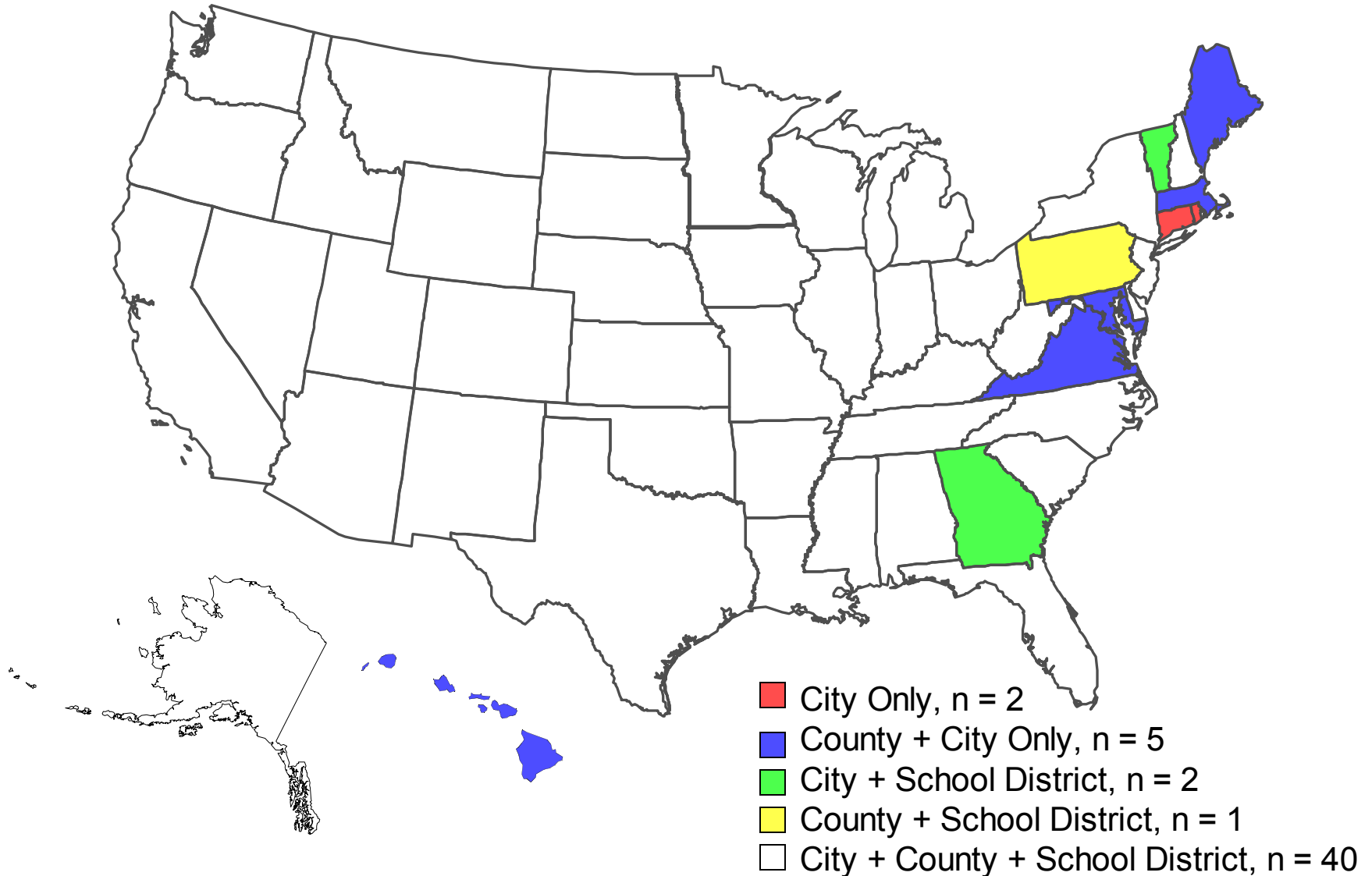
Taxpayers will likely see a change in property taxes despite no change in budgeted ad valorem property tax revenue for the taxing entity.



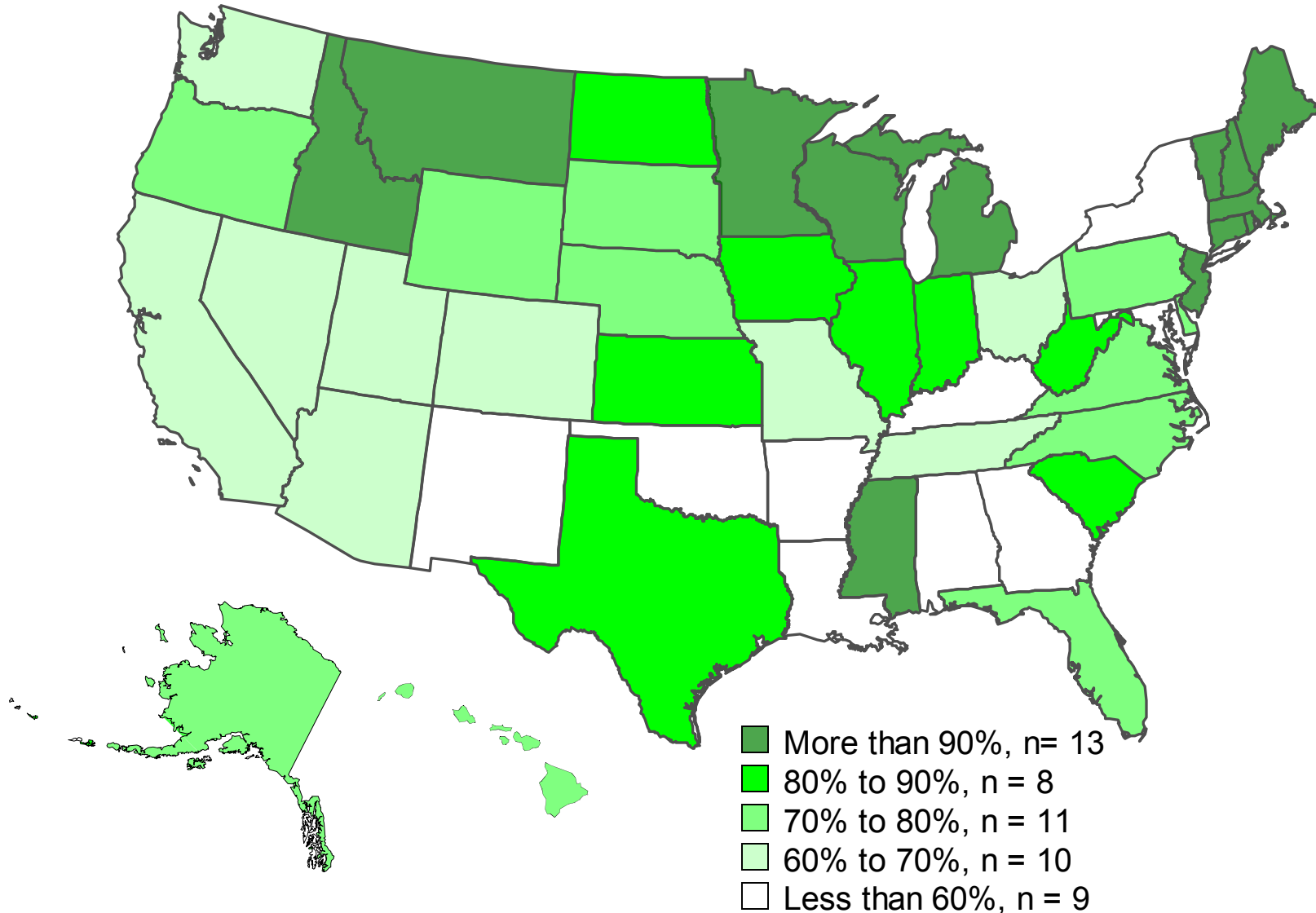
Property Taxes as a Percent of Total Personal Income: Utah, Top Ten and Bottom Ten States FY 2005



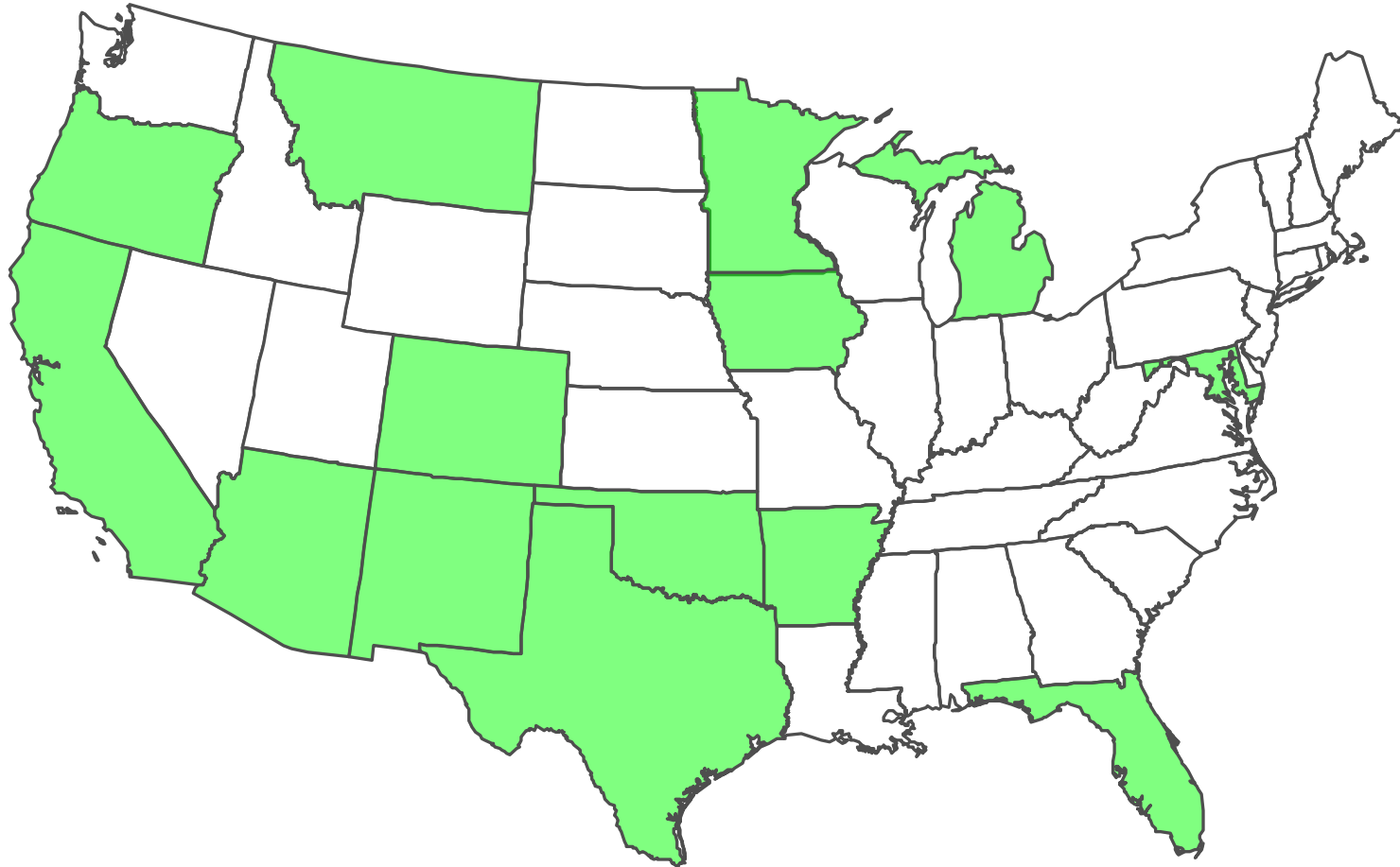
Major Units of Local Government Receiving Property Tax Revenue



Local Property Taxes as a Percent of Total Local Taxes – FY 2005

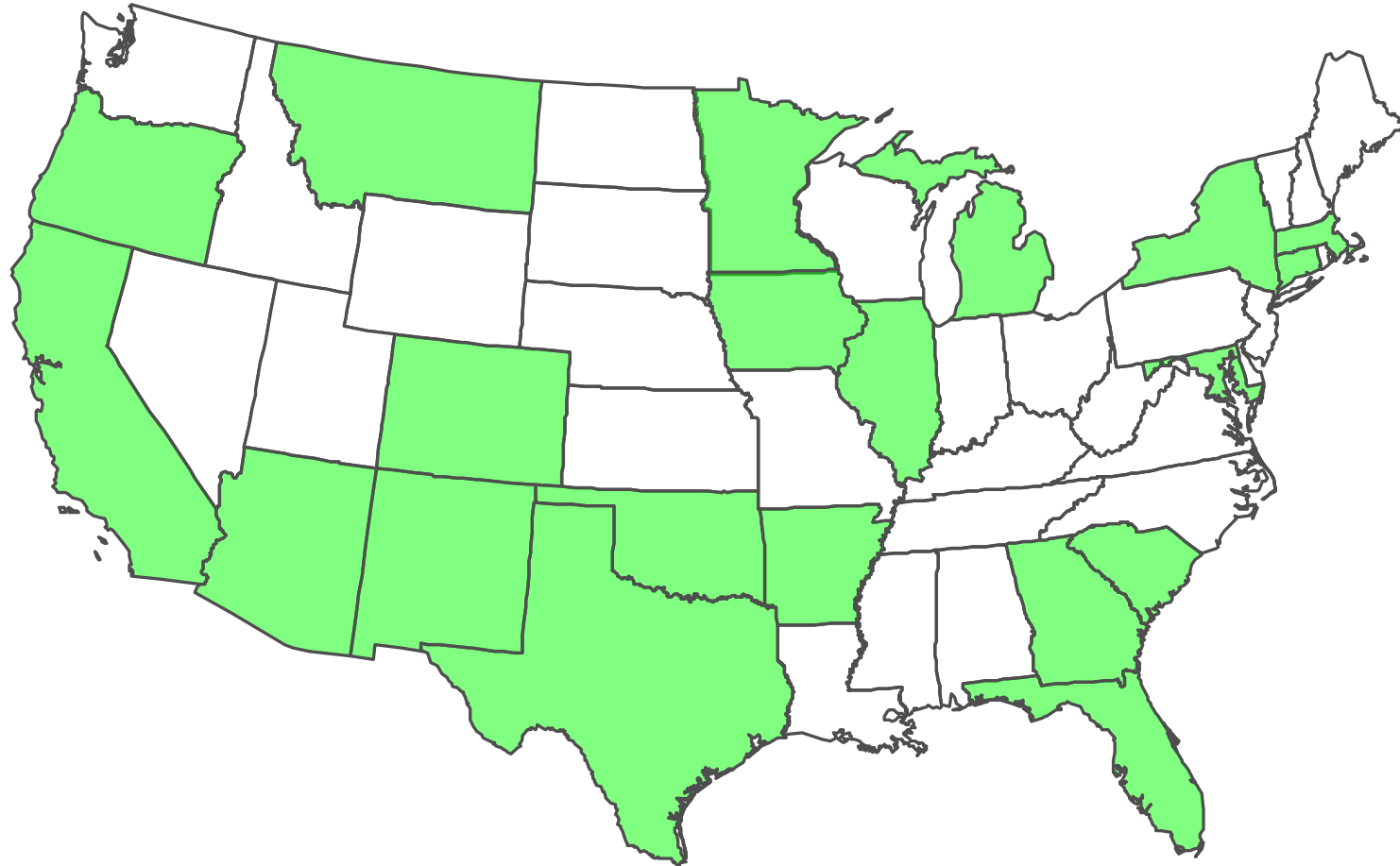


Statewide Assessment Limits

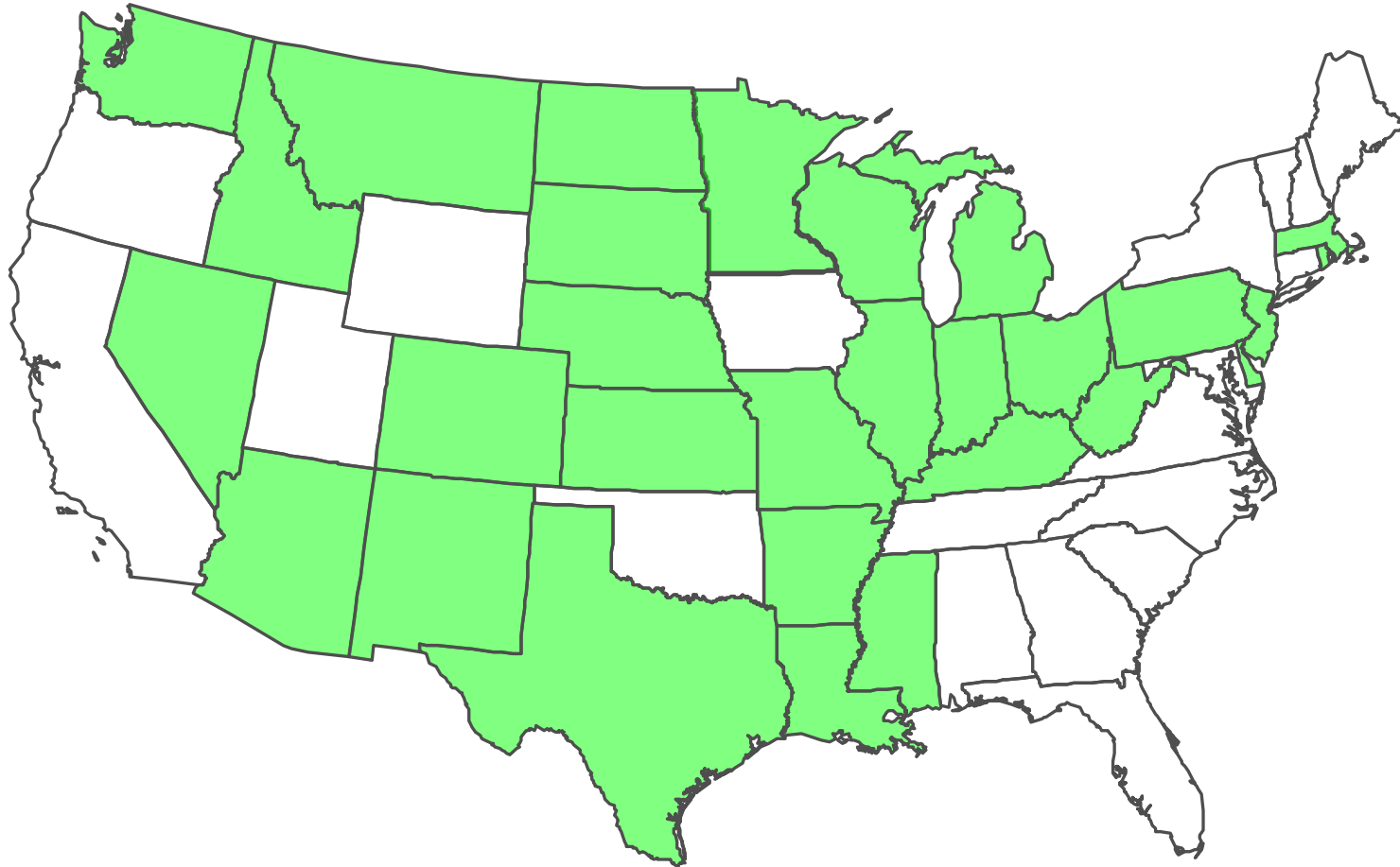


Source: "Property Tax Limitations: An Interpretive Review." Nathan B. Anderson. *National Tax Journal*, September 2006.

Some Form of Assessment Limits

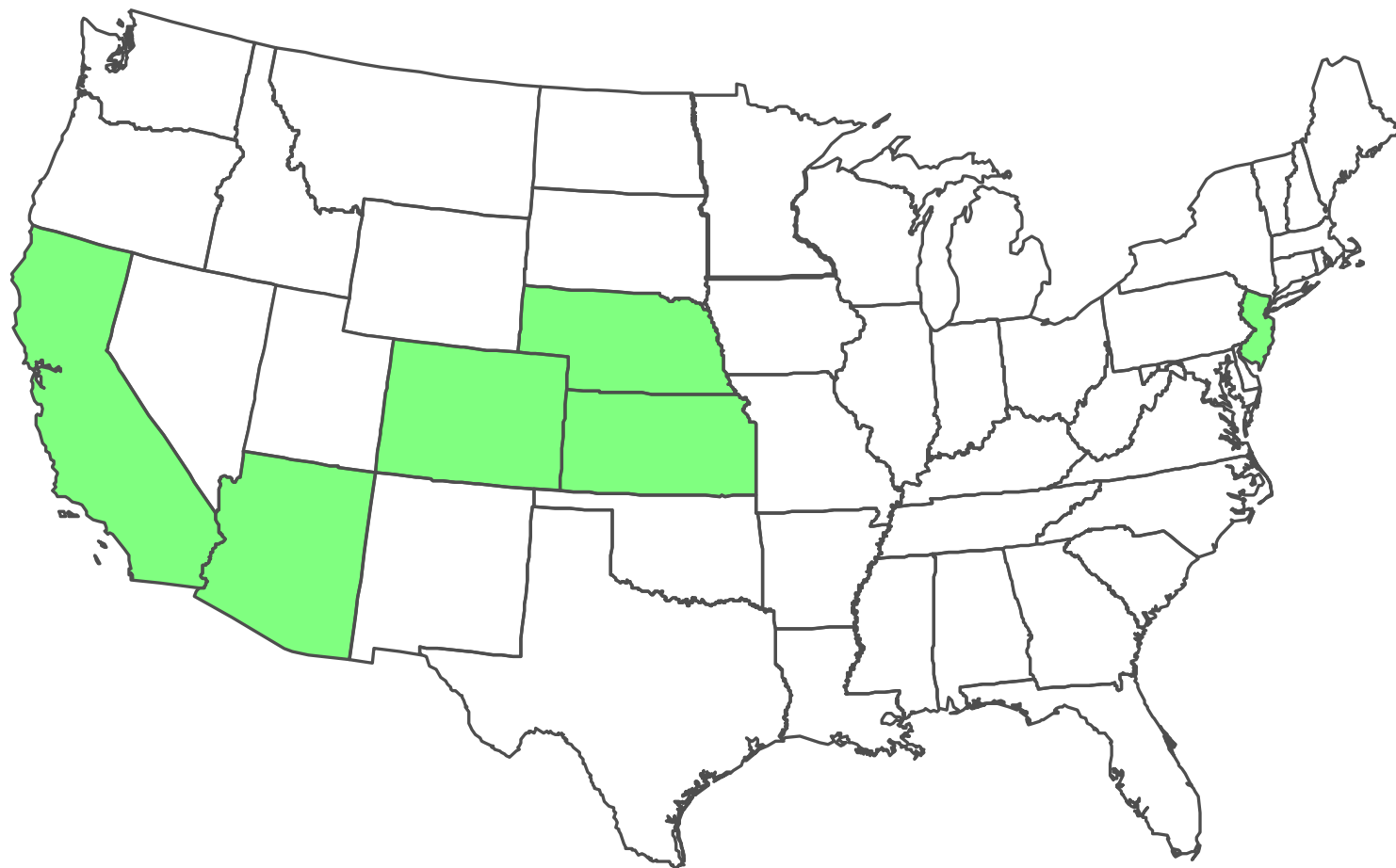


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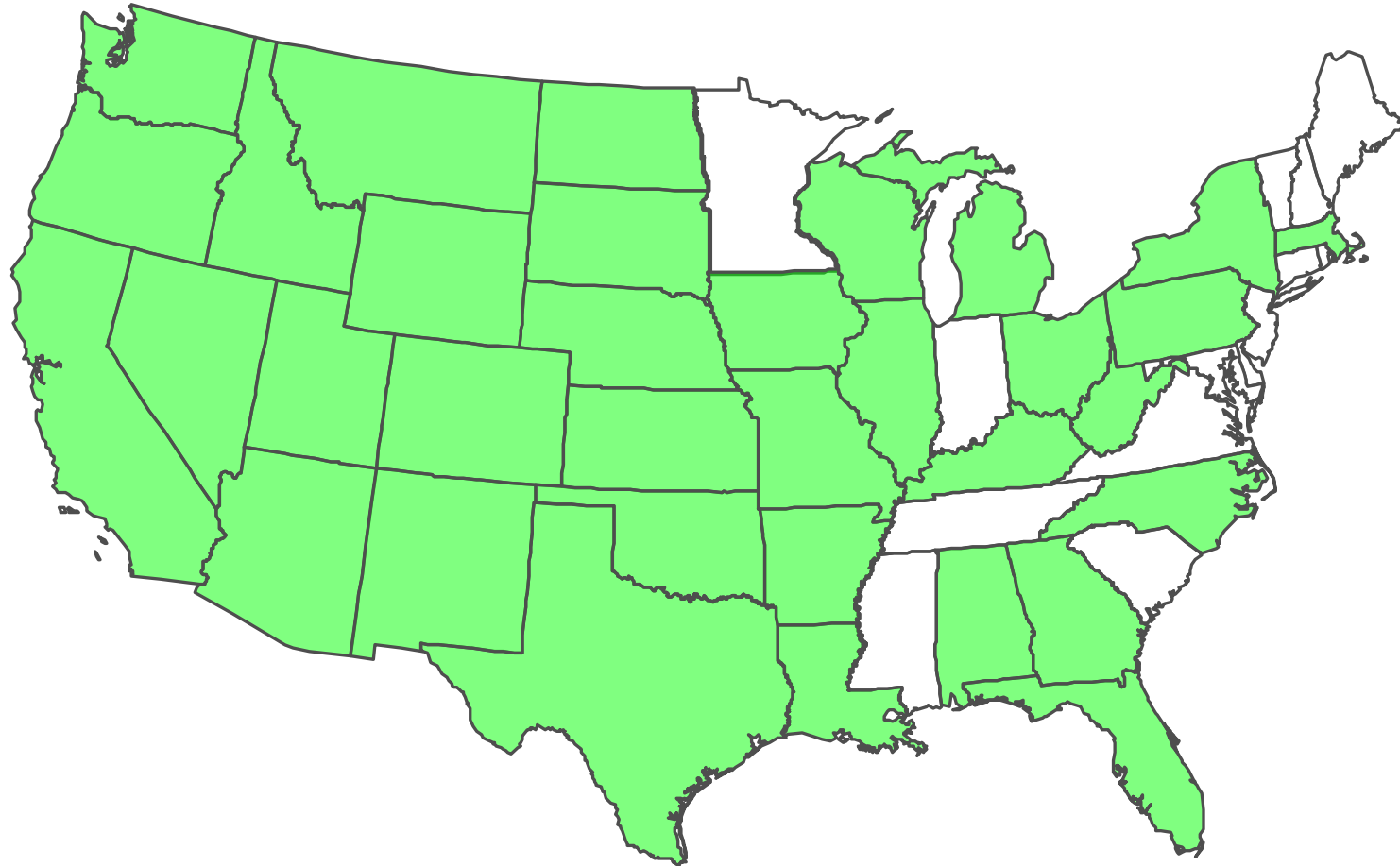
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Expenditure Limits



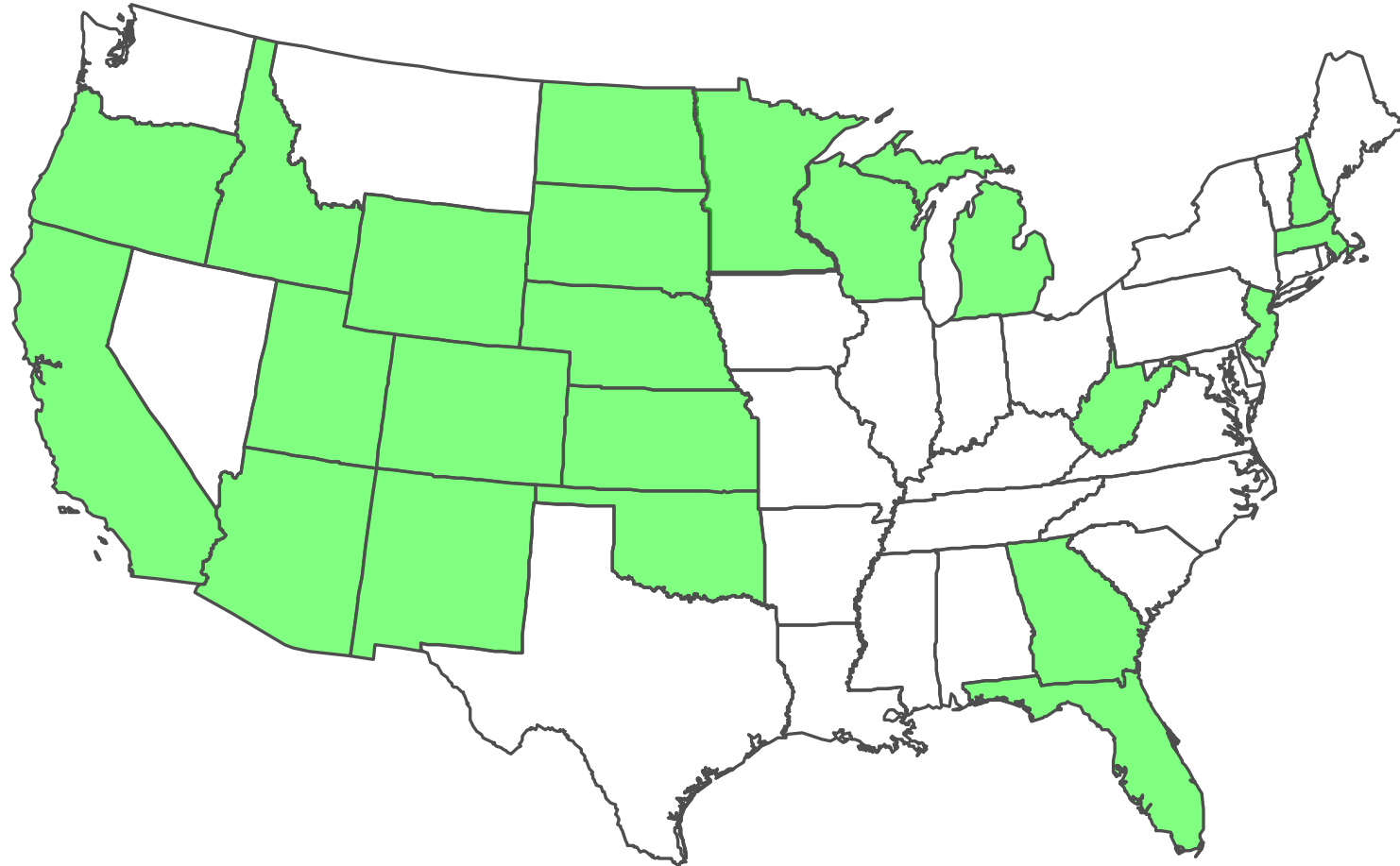
Source: "Property Tax Limitations: An Interpretive Review." Nathan B. Anderson. *National Tax Journal*, September 2006.

Tax Rate Limits



Source: "Property Tax Limitations: An Interpretive Review." Nathan B. Anderson. *National Tax Journal*, September 2006.

Mandatory Annual Assessments



Source: "Property Tax Limitations: An Interpretive Review." Nathan B. Anderson. *National Tax Journal*, September 2006.